

Message Text

UNCLASSIFIED

PAGE 01 STATE 012687

45

ORIGIN SS-15

INFO OCT-01 CCO-00 RSC-01 SSO-00 ISO-00 /017 R

66604

DRAFTED BY S/S-O:M.HUGHES

1/20/74 EXT. 21512

APPROVED BY S/S-O:K.KURZE

----- 029546

O 201334Z JAN 74 ZFF4

FM SECSTATE WASHDC

TO AMEMBASSY LONDON IMMEDIATE

UNCLAS STATE 012687

TOSEC 261

FOLLOWING SENT BEIRUT FROM SECSTATE WASHDC 20 JAN 74:

QUOTE UNCLAS STATE 012687

TOSEC 261

FOLLOWING REPEAT PARIS 1654 ACTION SECSTATE INFO BONN,
BRUSSELS, THE HAGUE, LONDON, ROME, TOKYO, EC BRUSSELS,
OECD PARIS, JAN 19:

QUOTE UNCLAS PARIS 1654

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN/FR

SUBJECT: FRANCE FLOATS THE FRANC

1. SUMMARY: EXTRAORDINARY MEETING OF FRENCH COUNCIL OF MINISTERS
CALLED ON MORNING OF JANUARY 19, DECIDED TO LET FRENCH FRANC FLOAT
FOR SIX MONTHS PERIOD. END SUMMARY.

2. AT 7:30 PM GOVT SPOESMAN ANNOUNCED FOLLOWING DECISIONS TAKEN
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 012687

BY EXTRAORDINARY MEETING OF FRENCH COUNCIL OF MINISTERS ON MORNING

OF JAN 19:

A. SUSPEND FOR SIX MONTHS MANDATORY INTERVENTIONS BY BANK OF FRANCE ON EXCHANGE MARKET (IN OTHER WORDS, ALLOW COMMERCIAL FRANC TO FLOAT AGAINST OTHER "SNAKE" CURRENCIES).

B. CONVENE SPECIAL SESSION OF PARLIAMENT FOR JAN 22 TO DEBATE SUBJECT OF "MONETARY POLICY OF FRANCE".

3. GOVT SPOKESMAN ALSO SAID FRANCE HAD CONSULTED WITH EC AND WITH OTHER MEMBER COUNTRIES OF FRANC AREA. FOLLOWING COUNCIL OF MINISTERS MEETING FINANCE MINISTER GISCARD D'ESTAING WENT TO GERMANY, WHERE HE SAW GERMAN FINANCE MINISTER SCHMIDT AND BRIEFLY CHANCELLOR BRANDT. SPOKESMAN RECALLED THAT GERMANY WAS CURRENT CHAIRMAN OF EC COUNCIL OF MINISTERS. AFTER RETURN TO PARIS AT END OF DAY, GISCARD ALSO INFORMED EC COMMISSION PRESIDENT ORTOLI.

4. IMMEDIATELY FOLLOWING OFFICIAL ANNOUNCEMENT OF GOVT'S DECISION TO LET FRANC FLOAT, GISCARD, IN SHORT SPEECH ON TV AND RADIO, JUSTIFIED THIS STEP IN FOLLOWING TERMS:

A. FRANCE HAS ALWAYS BEEN ADVOCATE OF ORDERLY INTERNATIONAL MONETARY SYSTEM, WHICH MEANS FIXED RATES AND CURRENCY CONVERTIBILITY.

B. BUT THERE IS ABSOLUTELY NO CHANCE OF ANY REFORM OF MONETARY SYSTEM EITHER IN 1974 OR IN 1975. THIS MEANS A NUMBER OF MAJOR CURRENCIES --- US DOLLAR, CANADIAN DOLLAR, STERLING, LIRA, YEN AND EVEN SWISS FRANC--- WILL CONTINUE TO FLOAT.

C. MOREOVER, OIL CRISIS MEANS LARGE PAYMENTS DEFICITS FOR MANY COUNTRIES -- TOTALING AS MUCH AS \$60 BILLION IN 1974 FOR PRINCIPAL COUNTRIES. AT PRESENT NO ONE KNOWS HOW THESE DEFICITS WILL BE FINANCED. OUTLOOK IS THUS FOR CONTINUING INSTABILITY OF INTERNATIONAL PAYMENTS, AND THE COUNTRY WHICH TRIES TO DEFEND ITS CURRENCY AT A FIXED RATE WILL EXPOSE ITSELF TO HEAVY RESERVE LOSSES AND IN THE END MAY HAVE BOW BEFORE SPECULATION ANYWAY.

D. THERE ARE TWO ADVANTAGES AND ONE DISADVANTAGE STEMMING FROM DECISION TO FLOAT:

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 012687

1. FIRST ADVANTAGE IS THAT IT PROTECTS RESERVES. BANK OF FRANCE IS FREE TO INTERVENE IF THIS CONSIDERED DESIRABLE, BUT HAS NO OBLIGATION TO DO SO.

2. SECOND ADVANTAGE IS THAT FLOATING GIVES FRANCE INCREASED LATITUDE TO PURSUE DOMESTIC ECONOMIC POLICIES IT CONSIDERS NECESSARY TO PROMOTE ITS PRIORITY OBJECTIVES: EXPORTS, SUPPORT FOR LEVEL OF ECONOMIC ACTIVITY AND MAINTENANCE OF LEVEL OF EMPLOYMENT.

3. DISADVANTAGE IS THAT FLOATING OF FRANC WILL INTERRUPT PROGRESS TOWARDS ECONOMIC AND MONETARY UNION IN EUROPE. BUT WITH OTHER EC CURRENCIES ALREADY FLOATING, OUTLOOK WAS ALREADY CLOUDED. FRANCE WILL DO EVERYTHING POSSIBLE GET TRAIN BACK ON TRACKS.

E. THREE CONCLUDING OBSERVATIONS:

1. FRANCE HAS ALWAYS INSISTED THAT OTHER COUNTRIES WITH FLOATING CURRENCIES BE READY INTERVENE TO MAINTAIN ORDERLY MARKET CONDITIONS, AND IS OF COURSE READY FOLLOW THIS PRINCIPLE AS REGARDS FRANC.

2. DECISION WAS TAKEN AFTER REFLECTION AND NOT UNDER PRESSURE OF CURCUMSTANCES. FRIDAY WAS VERY CALM DAY FOR FRANC ON EXCHANGE MARKETS.

3. GOVT WILL CONTINUE TAKE WHATEVER MEASURES NECESSARY PROTECT FRENCH ECONOMIC SITUATION.

5. COMMENTATORS ARE PREDICTING THAT GOVT WILL BACK UP DECISION TO FLOAT WITH TIGHTENING OF EXCHANGE CONTROLS -- PARTICULARLY TO RESTRICT CAPITAL OUTFLOWS-- AND PERHAPS ALSO BY TIGHTENING CREDIT POLICY STILL FURTHER. THESE SOURCES SAY BANK OF FRANCE PROBABLY LOST SOMEWHERE BETWEEN \$400 AND \$600 MILLION LAST WEEK, TRYING TO KEEP COMMERCIAL FRANC WITHIN EUROPEAN MONETARY "SNAKE." STONE UNQUOTE RUSH

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, UNEMPLOYMENT, CURRENCY STABILITY, FINANCIAL PROGRAMS, DE FACTO DEVALUATIONS, FOREIGN EXCHANGE RATES, ECONOMIC PROGRAMS, FINANCIAL RESERVES , BALANCE OF PAYMENTS DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE012687
Document Source: CORE
Document Unique ID: 00
Drafter: O:M.HUGHES
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740129/aaaabbdu.tel
Line Count: 143
Locator: TEXT ON-LINE
Office: ORIGIN SS
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 26 FEB 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 FEB 2002 by chappeld>; APPROVED <29 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRANCE FLOATS THE FRANC
TAGS: EFIN, FR
To: LONDON
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005